

FRANCHISE AND EXCISE TAX

The **Franchise Tax** is based on values shown on a company's balance sheet at the end of its fiscal year. The franchise tax rate of 25 cents per 100 dollars is applied to the net worth, or the book value, of property, whichever is greater. The franchise tax may be prorated to cover any taxable period covering less than 12 months. Net worth is defined as total assets less total liabilities, determined in accordance with generally accepted accounting principles. Taxpayers, except unitary groups filing on a combined basis, who do not keep their books and records using generally accepted accounting principles to compute net worth may use the same method used for federal income tax purposes, as long as such method fairly reflects the taxpayer's net worth for purposes of the franchise tax. Treasury stock and stock or interest held in another taxpayer who is doing business in Tennessee is not included in the net worth.

The **Excise Tax** is imposed on the net earnings derived from business conducted in Tennessee, as reported on the profit and loss statement. A tax rate of 6.5% is applied to the net earnings for the fiscal year. For excise tax purposes, "net earnings" is defined as federal taxable income before the net operating loss deduction and special deductions subject to certain state adjustments. Examples of some of the adjustments are: (1) Tennessee excise tax deducted on the federal return is not allowed for state purposes, (2) charitable contributions made during the fiscal year are deductible for state purposes with no limit on the amount, except that the fair market value of property donated cannot exceed the actual cost of such property, and (3) any net operating loss incurred in previous years may be deducted. Any net operating loss incurred for fiscal years ending on or after 1/15/84 may be carried forward for 15 years.

For S Corporations, "pass through" income is added back to net earnings and "pass through" expense items on Federal Schedule K, Form 1120S are deducted.

For taxpayers treated as partnerships under federal law, and for limited liability companies whose single member is a natural person and who choose to be treated as individual taxpayers under federal law, net earnings does not include amounts paid to partners or members that are subject to federal self-employment tax, or amounts contributed to qualified pension plans and the like.

A taxpayer who is a member of an entity filing a Federal Form 1065 will adjust net earnings by deducting the "pass through" income and adding back the "pass through" expenses reported on the federal return, if received from an entity subject to Tennessee franchise and excise tax.

The gain or loss on an asset distributed by a partnership, S Corporation, or business trust within 12 months to a member, partner, shareholder, or certificate holder is included in the tax base.

Quarterly Estimated Payments of franchise and excise tax are required if the combined liability for the current year is \$5000 or more. The minimum quarterly payment is the lesser of: (a) 25% of the prior year's combined Franchise and Excise Tax liability, or (b) 25% of 100% of the current year's combined liability.

Due Dates – A schedule of due dates for the return, extension, and estimated payments, based on the fiscal year end, is as follows:

Fiscal Year		Due Date of Return	6 Month Ext. Due Date	Estimated Franchise & Excise Tax Payments			
Beginning	Ending			1st	2nd	3rd	4th
7/1/04	6/30/05	10/15/05	4/15/06	10/15/04	12/15/04	3/15/05	7/15/05
8/1/04	7/31/05	11/15/05	5/15/06	11/15/04	1/15/05	4/15/05	8/15/05
9/1/04	8/31/05	12/15/05	6/15/06	12/15/04	2/15/05	5/15/05	9/15/05
10/1/04	9/30/05	1/15/06	7/15/06	1/15/05	3/15/05	6/15/05	10/15/05
11/1/04	10/31/05	2/15/06	8/15/06	2/15/05	4/15/05	7/15/05	11/15/05
12/1/04	11/30/05	3/15/06	9/15/06	3/15/05	5/15/05	8/15/05	12/15/05
1/1/05	12/31/05	4/15/06	10/15/06	4/15/05	6/15/05	9/15/05	1/15/06
2/1/05	1/31/06	5/15/06	11/15/06	5/15/05	7/15/05	10/15/05	2/15/06
3/1/05	2/28/06	6/15/06	12/15/06	6/15/05	8/15/05	11/15/05	3/15/06
4/1/05	3/31/06	7/15/06	1/15/07	7/15/05	9/15/05	12/15/05	4/15/06
5/1/05	4/30/06	8/15/06	2/15/07	8/15/05	10/15/05	1/15/06	5/15/06
6/1/05	5/31/06	9/15/06	3/15/07	9/15/05	11/15/05	2/15/06	6/15/06

If you have questions regarding the franchise and excise tax laws or wish to request forms, please contact the Tennessee Department of Revenue at 1-800-342-1003 for in-state taxpayers and (615) 253-0700 for Nashville and out-of-state taxpayers. You may also contact the Department by e-mail at tcrevenue@mail.state.tn.us, or you may visit our web site at www.tennessee.gov/revenue.

